

Sectoral Challenges I: Textiles

March 3-4, 2003

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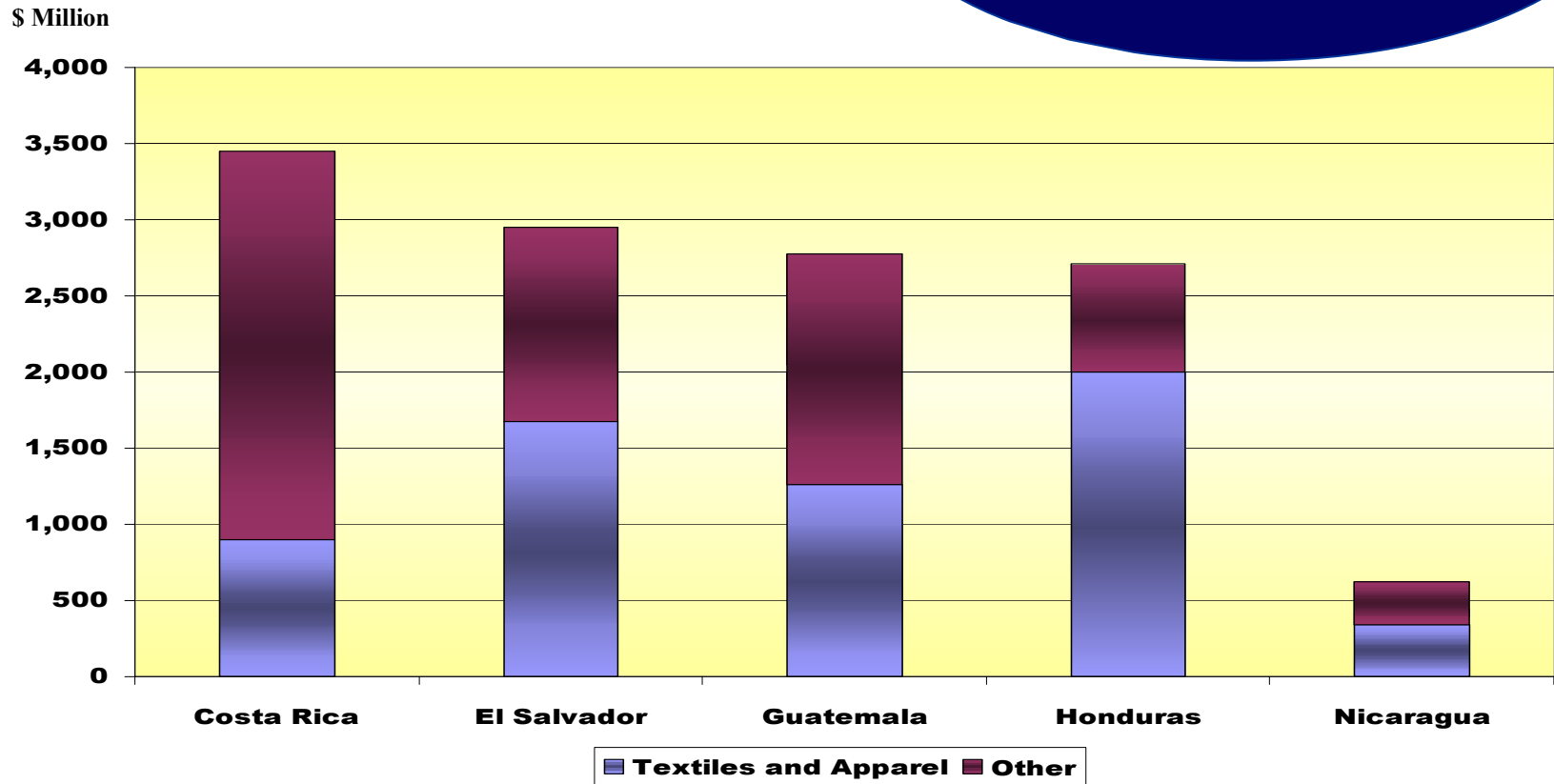


Growing Importance of Apparel Trade with the United States



World merchandise imports from CAFTA-5 countries

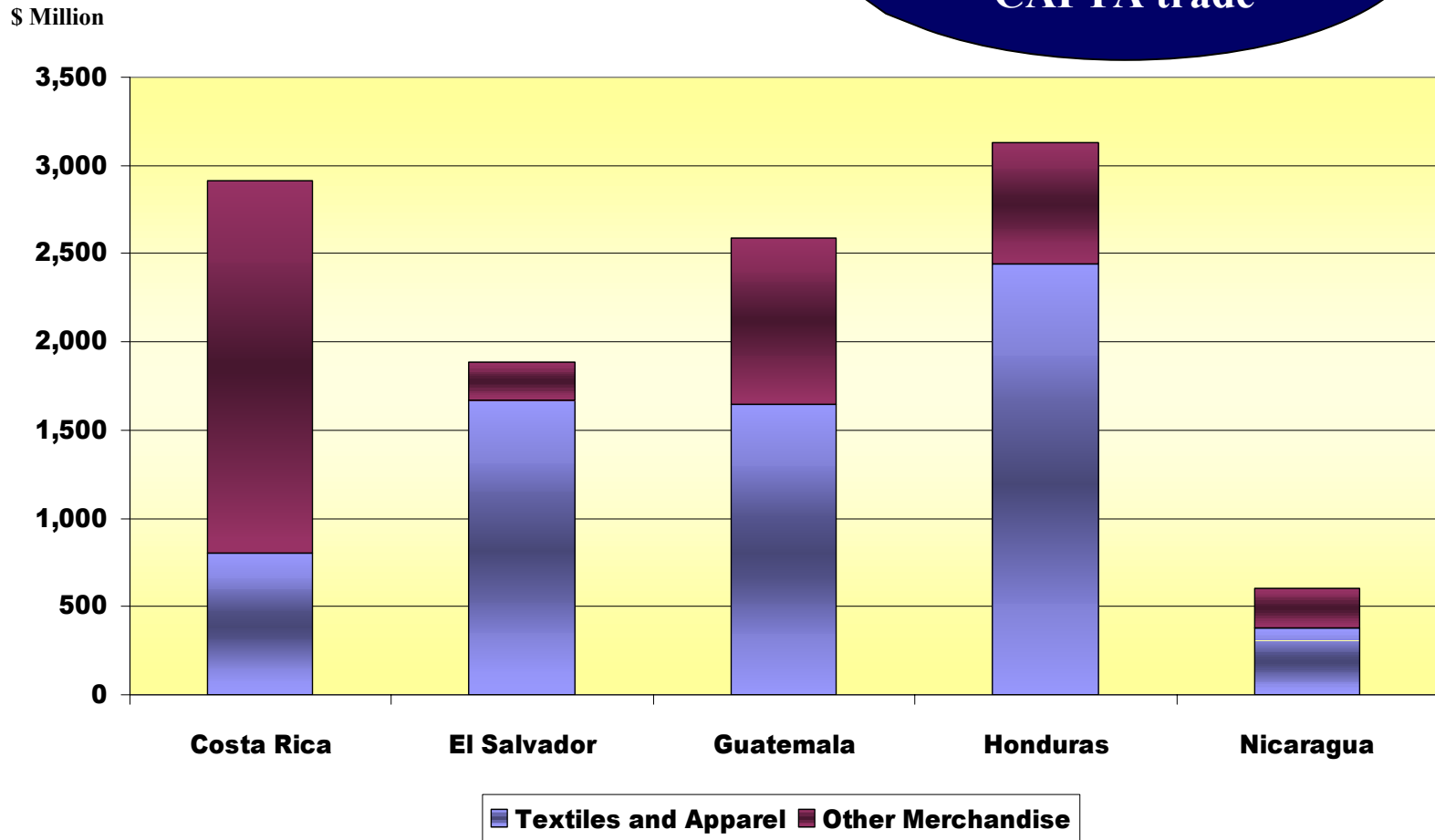
Over 95 percent of CAFTA-5 exports of textiles and apparel are to the United States



Source: Data for Costa Rica, Guatemala, and Honduras are from the World Bank Trade and Production database, 1999. Data for El Salvador and Nicaragua are from U.S. State Department Country Commercial Guides 2000 and 2001.

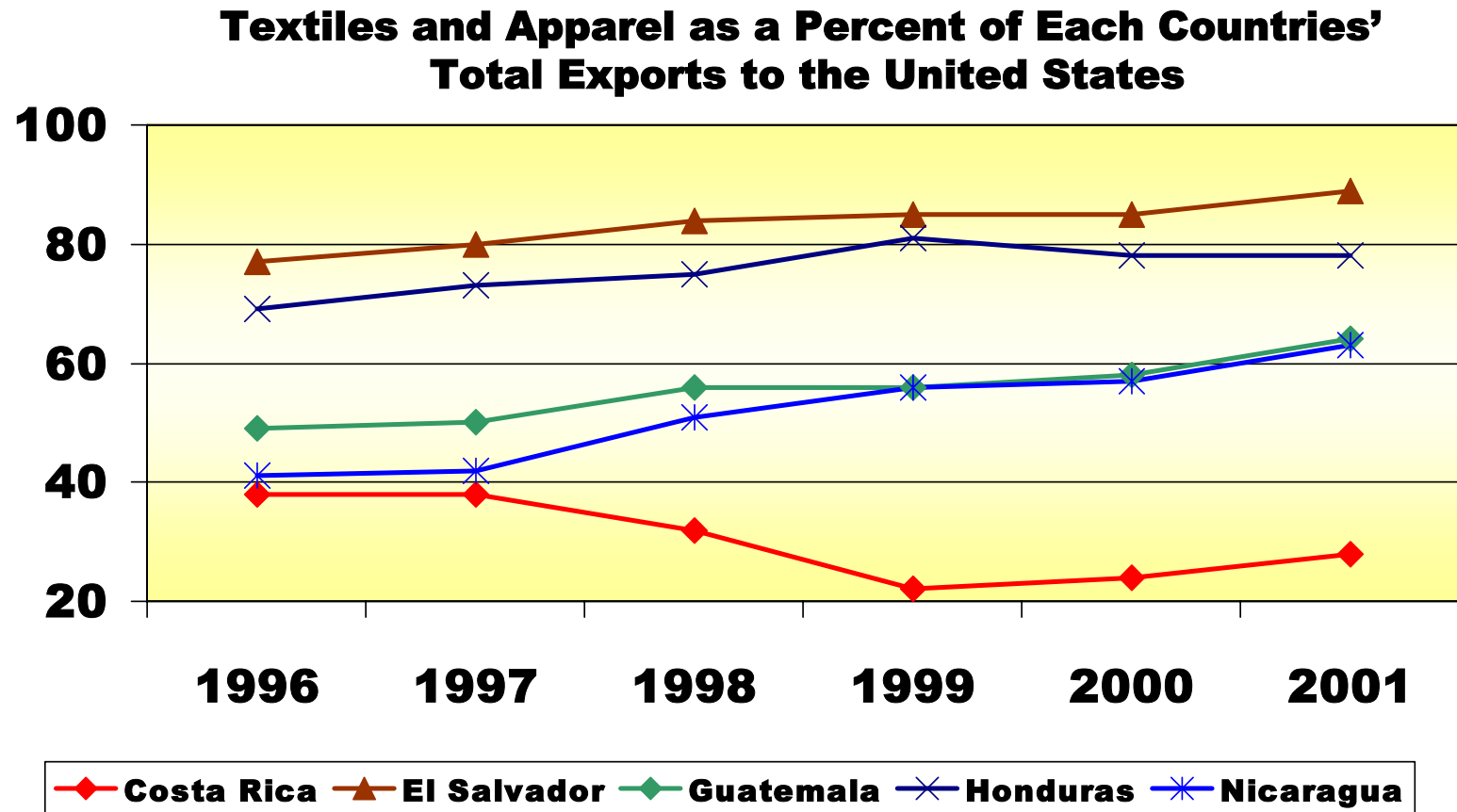
U.S. merchandise imports from the CAFTA-5 countries (million US\$)

Apparel items are important in U.S.-CAFTA trade



Source: USITC Data web, data for 2001.

U.S. imports of textiles and apparel are growth engines for the region



Employment benefits of CAFTA-5 apparel exports

Estimates of Direct and Indirect Employment Benefits Resulting from CAFTA-5 Exports of Apparel to the United States

	Employment	
	Direct	Indirect
Costa Rica	45,000	--
El Salvador	70,000	140,000
Guatemala	112,574	--
Honduras	117,300	1,173,000
Nicaragua	40,758	--

Source: U.S. Commercial Reports and local trade associations. Data are for 2000 and 2001.

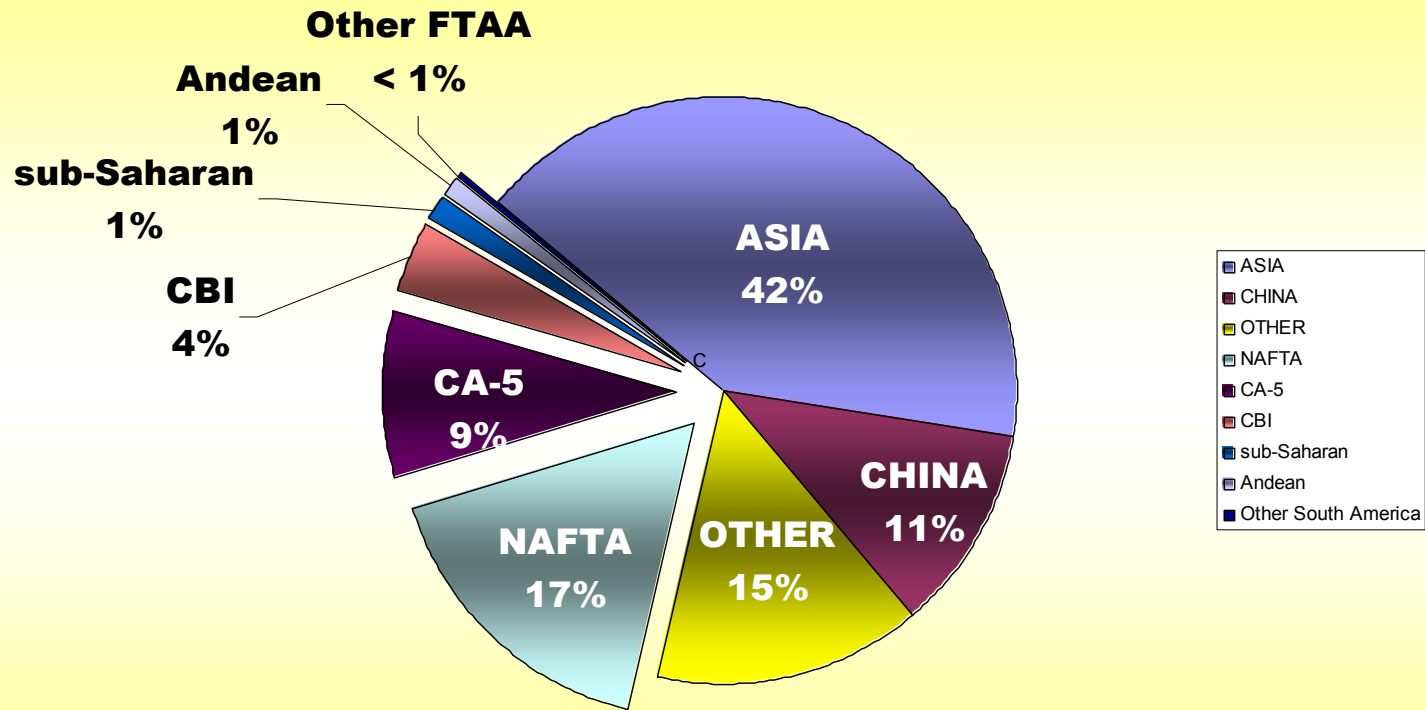
Preferential Access

Duty and quota benefits



Preferential access to US market

Percent of U.S. Imports of Apparel



Source: US Department of Commerce, Imports of Merchandise Trade, 2001.

Benefits of preferential access— Duties and quotas

U.S. Imports from CA-5 Countries

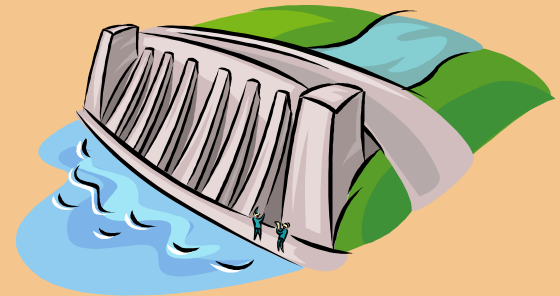
(NOTE: U.S. weighted duty averaged 6% in 2001 on apparel imports from CA-5 countries)

Fiber Type	US Apparel Imports from CA-5 Countries (2001)		Avg. Applied Duty to Non- pref. Suppliers	Average Tariff Equivalent of Quotas
	Value	Percent		
Cotton	4,722	69	16	30
Synthetic	1,647	24	23	27
Other	376	5	24	8
Wool	95	1	18	27
Total	6,840	100	18	28

Source: Data for applied duties from US Department of Commerce, Imports of Merchandise Trade. Estimates of tariff equivalents of quotas from United States International Trade Commission "The Economic Effects of Significant Import Restraints" (2002).

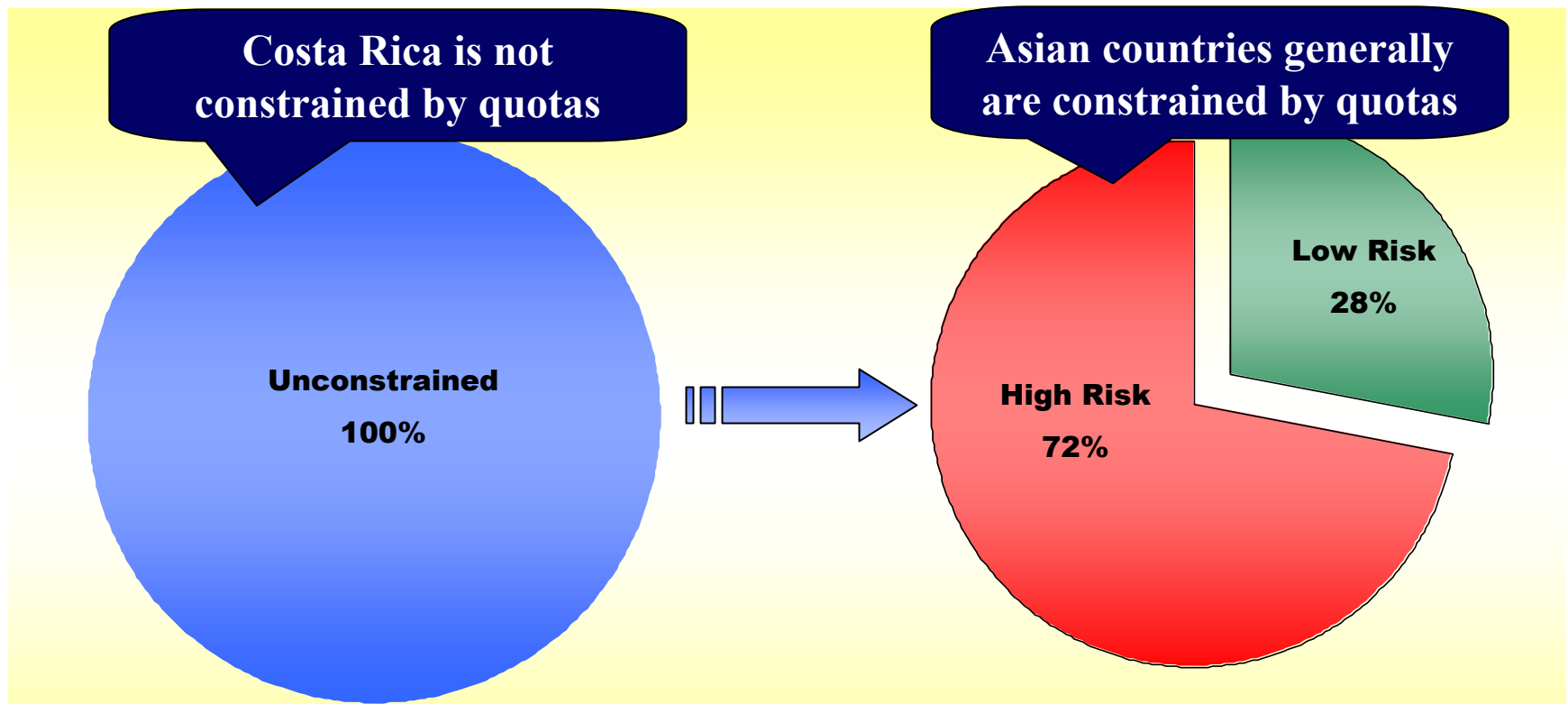
Quota Removal

**A major benefit will be
removed in 2005**



Costa Rica's exports will be subject to more competition

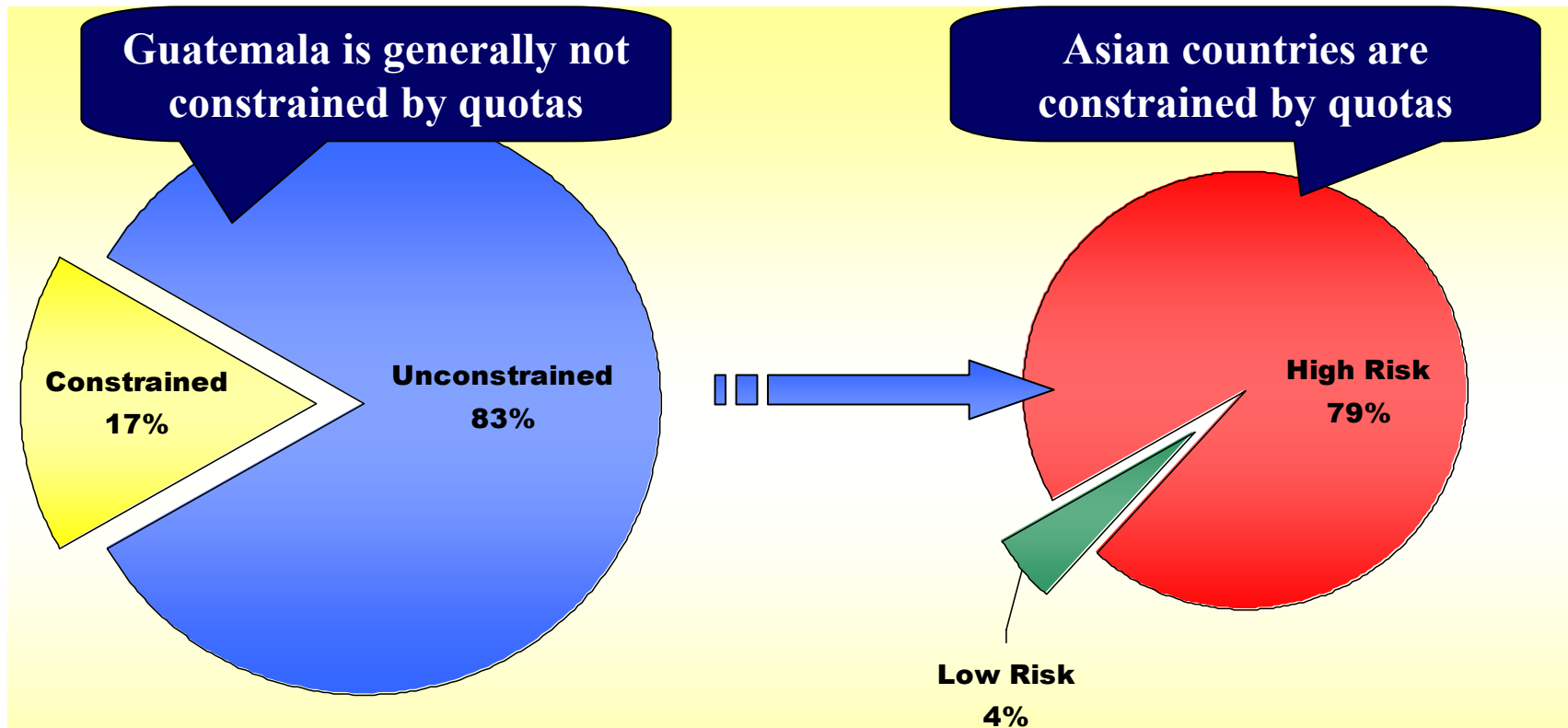
Costa Rica's 2001 U.S. Exports of Apparel



Source: Data from U.S. Department of Commerce. Low-risk exports are products in which Costa Rica and other countries are not constrained by quotas.

Guatemala's exports will be subject to more competition

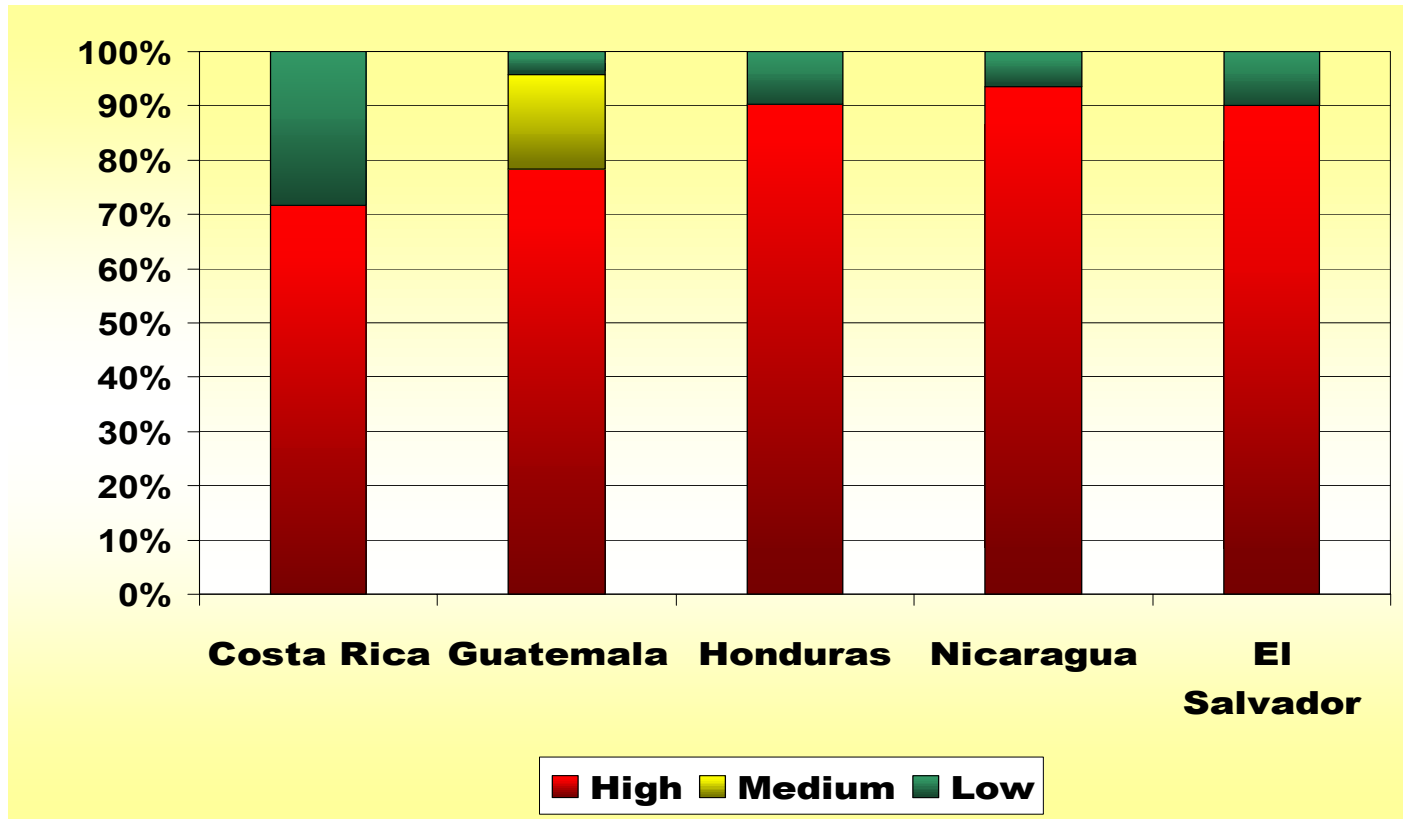
Guatemala's 2001 U.S. Exports of Apparel



Source: Data from U.S. Department of Commerce. Constrained exports include products for which both Guatemala and other countries are constrained by quotas. Low-risk exports are products in which Guatemala and other countries are not constrained by quotas.

CAFTA-5 U.S. export market risk levels, 2002–2005

Percent of Apparel Exports



Ten U.S. quota categories with the highest number of countries quota-constrained

US Quota Category	Fibre Type	Product	Number of Countries Constrained by US Quotas	Cumulative Percent of US Imports from CAFTA Countries
347	Cotton	M&B TROUSERS	22	9
348	Cotton	W&G TROUSERS/SLACKS	22	15
339	Cotton	W&G KNIT BLOUSES	17	31
648	MMF	W&G SLACKS	17	34
338	Cotton	M&B KNIT SHIRTS	16	50
647	MMF	M&B TROUSERS	16	52
351	Cotton	NIGHTWEAR/PAJAMAS	13	53
651	MMF	NIGHTWEAR & PAJAMAS	12	54
345	Cotton	SWEATERS	11	54
335	Cotton	W&G COATS	9	54

Source: Based on data from U.S. Department of Commerce Office of Textiles and Apparel. A quota is constrained if it is more than 85 percent filled.

US-CAFTA Agreement



U.S. FTAA textile and apparel offer

- The United States has agreed to remove all duties on textile and apparel imports five years from the initiation of any agreement
- Requires that partners reciprocate
- Partners can remove duties over a period longer than five years

Possible rules of origin



- Yarn forward requiring the use of same country or U.S. materials
- Yarn forward requiring use of CAFTA materials (more liberal rule)

Benefits of a U.S.-CAFTA for Central America

- Lower duties
- Investment—U.S.-CAFTA will provide permanent benefits
- Investment—Rule of origin will encourage upstream production

FTA vs. Quota Removal 2005

Answer to a Problem?



Rules of origin are pivotal in any trade agreement

- Fabric can comprise 50% or more of a garment's factory gate price
- Asian fabrics are often cheaper than regional fabrics and provide a broader input base
- Regional fabric surcharges

Competitive assessment still required

- U.S. duties on cotton apparel average only 16 percent
- Higher costs of regional fabrics and local costs can quickly eliminate that advantage
- United States will reduce duties by 2010—Not immediately, so there will be five years of open competition in any case

Competitive assessment



- Country-specific product-by-product analysis
- Transportation, customs, access to fabrics, infrastructure, labor costs, investment laws, and regulations.